



A-123 Attachment A  
Testing Phase  
Department of the Interior

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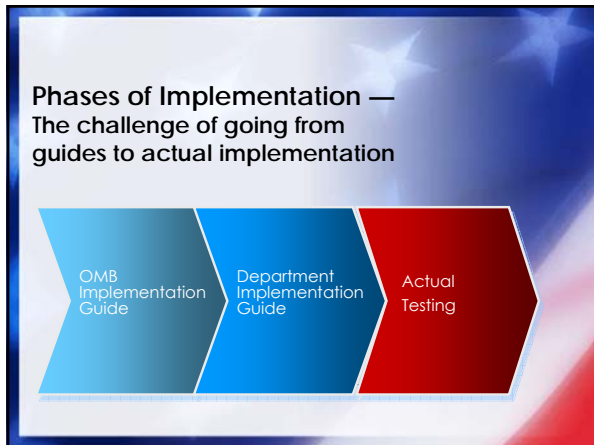
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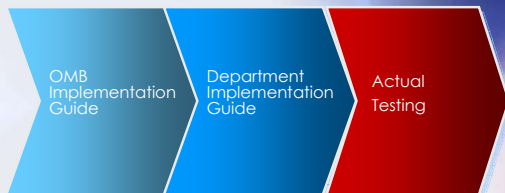
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Phases of Implementation —  
The challenge of going from  
guides to actual implementation



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A presentation slide with a background of stars and stripes. It contains a title and a bulleted list of points.

Testing approach—  
Where to start

- Getting from the “Document Processes” task to the “Develop Test Plan” task is extremely challenging.
- Developing a test plan is about:
  - selecting key controls to be tested,
  - writing audit procedures to test the key controls, and
  - determining a sampling approach.

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## Testing approach— Determine key controls

- Using your risk assessment as an influence, **select a combination of internal controls** that are varied as to method (e.g., manual vs. automated), category types (e.g. management review or edit check), recurrence (e.g., monthly or recurring daily) and importance in the stage the control occurs (e.g., final management review or early stage authorization).
- Document controls in a control matrix, noting the key controls along with sample information.

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## A note about risk assessments

- Risk of significant misstatement**
  - At a minimum, the risk of significant misstatement should be assessed for each business cycle.
  - Activities that mitigate risk should be taken into consideration and documented.
- Significant judgment**
  - Because the risk assessment process requires significant judgment, a senior person should perform/review these assessments.

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## Example control matrix

U.S. Geological Survey  
Date of Financial Statements: 9/30/06

Ref: 9.2

### Process Level Internal Control Assessment Grants Management Control Matrix

Purpose: To document the internal controls identified in the process document, and key controls selected for testing in FY 2006.

#	Description	Control Type	Frequency	Assertion	Risk to be Mitigated	Key Control
1	Regulations are entered into the Department of the Interior's Electronic Acquisition System (DEAS) by a procurement technician.	System Access	Recurring	Valuation, Rights and Obligations	Emersons obligation being posted to FFS.	
2	The actual award document, terms and conditions, applications, and all relevant documentation are reviewed by the contracting officer (CO).	Management Review	Recurring	Valuation, Rights and Obligations	Emersons obligation being posted to FFS.	Yes - Sample Size 45
3	The contracting officer (CO) ensures that the award contains the amount of funds awarded, start date, expiration date, vendor code, registration number, recipient name, and account number.	Management Review	Recurring	Valuation, Rights and Obligations	Emersons obligation being posted to FFS.	Yes - Sample Size 45
4	If the award is for \$1 million or more, it is forwarded to the DOI Solicitor's Office for legal review before being forwarded for approval.	Authorization	Recurring	Rights and Obligations	The recipient has a legal right to receive the award.	Yes - Sample Size 45
5	If the amount of the award is between \$50,000 and \$1 million the USGS Form 9-092 is approved by the Director of USGS. If the award amount exceeds \$1 million, the USGS Form 9-092 is also submitted to the Assistant Secretary of Water and Science for approval.	Authorization	Recurring	Rights and Obligations	The right of the agency to enter into the contract.	Yes - Sample Size 45
6	The contracting officer (CO) signs the award, which then officially obligates the funds.	Authorization	Recurring	Valuation, Rights and Obligations	Emersons obligation being posted to FFS.	Yes - Sample Size 45

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### Testing approach— Design audit procedures

- The goal in writing procedures is to be able to determine if the risk that the control is designed to mitigate is actually mitigated.
- Audit procedures should be specifically written for each control selected for testing.
- Audit procedures should be written by a senior person, preferably someone with audit experience.

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### A note about audit procedures

- The five methods of testing are:
  - interview,
  - inquiry,
  - observation,
  - inspection, and
  - re-performance.
- Write your procedures using these terms, e.g., "Inspect the invoice for time and date stamp. Re-perform the Prompt Payment Act calculation to determine if the payment was made in proper compliance with the PPA."

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### Link audit procedures directly to controls selected for testing

- To ensure completeness in testing all key controls, document audit procedures with direct linkage to the controls selected for testing.
- Multiple controls can be grouped together as linked to specific audit procedures, if each of the controls relates to one sample being tested.

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Example of cost center clusters within a bureau.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	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- Analyze your population
  - Dollar value of transactions
  - Volume of transactions
  - Excessive overtime
  - Turnover
  - Large contractor concentrations
  - Complexity of transactions
- Cluster your locations for adequate coverage
  - Group locations by physical proximity
  - Divide total sample across the cluster locations

	Region	Department and Office name	Country
	EUROPE	Central and Eastern Europe	
	EUROPE	Western Balkans	
	EUROPE	Integrated European Division	
PCY	Country	Office Name	Office Name
0001	ALBANIA	PCY-ALBANIA	ALBANIA
0002	ARMENIA	PCY-ARMENIA	ARMENIA
0003	AZERBAIJAN	PCY-AZERBAIJAN	AZERBAIJAN
0004	BELARUS	PCY-BELARUS	BELARUS
0005	BELGIUM	PCY-BELGIUM	BELGIUM
0006	BULGARIA	PCY-BULGARIA	BULGARIA
0007	CROATIA	PCY-CROATIA	CROATIA
0008	CYPRUS	PCY-CYPRUS	CYPRUS
0009	CZECH REPUBLIC	PCY-CZECH REPUBLIC	CZECH REPUBLIC
0010	DENMARK	PCY-DENMARK	DENMARK
0011	ESTONIA	PCY-ESTONIA	ESTONIA
0012	FINLAND	PCY-FINLAND	FINLAND
0013	FRANCE	PCY-FRANCE	FRANCE
0014	GERMANY	PCY-GERMANY	GERMANY
0015	GREECE	PCY-GREECE	GREECE
0016	HUNGARY	PCY-HUNGARY	HUNGARY
0017	ICELAND	PCY-ICELAND	ICELAND
0018	IRELAND	PCY-IRELAND	IRELAND
0019	ITALY	PCY-ITALY	ITALY
0020	NETHERLANDS	PCY-NETHERLANDS	NETHERLANDS
0021	NORWAY	PCY-NORWAY	NORWAY
0022	POLAND	PCY-POLAND	POLAND
0023	PORTUGAL	PCY-PORTUGAL	PORTUGAL
0024	ROMANIA	PCY-ROMANIA	ROMANIA
0025	RUSSIA	PCY-RUSSIA	RUSSIA
0026	SLOVAKIA	PCY-SLOVAKIA	SLOVAKIA
0027	SLOVENIA	PCY-SLOVENIA	SLOVENIA
0028	SPAIN	PCY-SPAIN	SPAIN
0029	SWEDEN	PCY-SWEDEN	SWEDEN
0030	SWITZERLAND	PCY-SWITZERLAND	SWITZERLAND
0031	UNITED KINGDOM	PCY-UNITED KINGDOM	UNITED KINGDOM
0032	UNITED STATES	PCY-UNITED STATES	UNITED STATES
0033	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0034	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0035	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0036	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0037	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0038	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0039	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0040	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0041	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0042	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0043	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0044	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0045	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0046	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0047	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0048	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0049	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0050	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0051	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0052	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0053	YUGOSLAVIA	PCY-YUGOSLAVIA	YUGOSLAVIA
0054	YUGOSLAVIA		

## A note about sampling

- It is critical to document how your population subject to sampling reconciles to the universe/general ledger.
- Document the parameters used to create the reports from which the samples are selected.
- Use a random number generator to select samples for testing.

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Use the  
**GAO FAM**  
guidance  
regarding  
sample sizes  
and  
acceptable  
error levels.

See excerpt  
at right.

Testing Phase:  
450 - Sampling Control Tests

Figure 450.1: Sample Sizes and Acceptable Numbers of Deviations (90% Confidence Level)

TABLE I (Tolerable rate of 5%)  (Use for determining sample-selection sizes in all cases)		TABLE II (Tolerable rate of 10%)  (Use for evaluating sample results only if preliminary assessment of financial reporting control risk is low and deviations exceed Table I)	
Sample Size	Acceptable Number of Deviations	Sample Size	Acceptable Number of Deviations
45	0	45	1
78	1	78	4
105	2	105	6
132	3	132	8
158	4	158	10
200	6	200	14

10 For financial reporting controls, if the preliminary assessment of control risk is low or moderate, Table I may be used to determine sample size. (GAO audit guidance requires the auditor to perform sufficient control tests to justify a low assessed level of control risk, if controls have been properly designed and placed in operation.)

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## Testing approach— Tests of Design

- Initially, you determine if a control is designed to actually work the way it has been described within your cycle memo via a test of design (also referred to as walk-thrus) using a sample item.
- This test concludes on whether a control is designed to prevent/detect misstatements.
- The conclusion dictates whether you sample transactions further to test the operating effectiveness of the control.

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### Testing approach— Tests of Operating Effectiveness

- After doing a favorable test of design, select a sample and test the sample to determine if the control actually works effectively.
- This test concludes on whether a control is operating to prevent/detect misstatements.
- The conclusion dictates whether the control works effectively or not to detect/prevent misstatement.

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### Testing— How much do you document in your workpapers?

- Choose a transaction and document the test of design, noting exactly what procedures you followed to do the test.
- Including sample documents with the test of design (only) is recommended.
- Documenting sample selected and results (only) with the test of operating effectiveness is recommended.

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### Testing approach— Overall Goals

- Perform and document your work such that you will find your weaknesses and develop corrective actions to resolve them.
- Perform and document your work in accordance with technical requirements such that auditors can review and re-perform a sample of your work, and potentially rely on your work to reduce the scope of their procedures to be performed.

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### A note on A-123 implementation

- Implementing Attachment A procedures is very similar to conducting the internal control phase of an audit of financial statements.
- The only way for you to know how to develop corrective actions that will resolve issues is to get an understanding of what is causing the issues. That can be accomplished through this A-123 implementation.

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### In conclusion — Overall critical success factors

- Primary testing phase critical success factors include:
  - having **leadership participation**, including validation of cycle memo data, by the senior assessment team;
  - **Keeping it simple** (following simple audit procedures and using simple documentation methods); and
  - **sharing information** among bureaus.

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